SENATE BILL REPORT
SB 5045

As of February 27, 2009

Title: An act relating to community revitalization financing.

Brief Description: Promoting economic development and community revitalization. [Revised for 1st Substitute: Regarding community revitalization financing.]

Sponsors: Senators Kilmer, Zarelli, Brown, Kauffman, Shin, Marr, King, Regala, Rockefeller, Haugen, Berkey, Eide, Kastama, Jarrett, Pridemore, McAuliffe and Ranker.

Brief History:
Committee Activity: Economic Development, Trade & Innovation: 1/14/09, 2/09/09 [DPS-WM].
Ways & Means: 2/26/09.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Majority Report: That Substitute Senate Bill No. 5045 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
Signed by Senators Kastama, Chair; Shin, Vice Chair; Zarelli, Ranking Minority Member; Delvin, Eide, Kilmer and McCaslin.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dianne Criswell (786-7433)

Background: Tax increment financing is a method of redistributing increased tax revenues within a geographic area resulting from a public investment to pay for the bonds required to construct the project.

Local Infrastructure Financing Tool. In 2006 the Legislature created a new form of tax increment financing, the Local Infrastructure Financing Tool (LIFT) program, to encourage private investment in community revitalization areas. The LIFT program provides a financing mechanism for local governments to make public infrastructure improvements, such as streets, sidewalks, traffic controls, and parking. Public improvement projects in revenue development areas are financed through a local sales and use tax that is credited

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against the state sales and use tax and matched with local resources, such as excess receipts from local sales/use and property taxes. The state contribution limit is $7.5 million per year. The new sales and use tax must be used for the purpose of principal and interest payments on bonds issued for a project, but may also be used to pay the public improvement costs on a pay-as-you-go basis for the first five years.

Community Revitalization Financing. In 2001 the Legislature created the Community Revitalization Financing (CRF) program. The CRF program was established to finance community revitalization projects by diverting a portion of the regular property taxes imposed by local governments within a "tax increment area" within counties, cities, towns, port districts, or any combination thereof. Additional property tax revenues generated from increases in assessed value within the increment area are divided: 75 percent is allocated for CRF projects and 25 percent allocated as normal. The state property tax levy is not affected.

Projects financed by property tax increment financing must be expected to encourage private development and increase the fair market value of real property within the tax increment area. CRF revenues may be used for a variety of projects and programs within the tax increment area, including traditional infrastructure improvements; providing environmental analysis, professional management, planning, maintenance, security for common areas, and promotion of retail trade activities within the increment area; and historic preservation.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Recommended Substitute): Participating local governments, such as cities, counties, and port districts, may create “revitalization areas” and may use certain tax revenues which increase within the area to finance local public improvements. The following sources of revenues are used for the payment of bonds which are issued to finance improvements: increased local sales/use tax revenues and property tax revenues generated from within the revitalization area; additional funds from other local public sources; and a local sales/use tax that is credited against the state tax.

Public improvements or projects which may be financed through this tax increment program include infrastructure projects: streets, roads, bridges, and rail; water and sewer system construction and improvement; sidewalks, streetlights, landscaping, and streetscaping; parking, terminal, and dock facilities; park and ride facilities of a transit authority; park facilities, recreational areas, and environmental remediation; storm water and drainage management systems; electric, gas, fiber, and other utility infrastructures; providing environmental analysis, professional management, planning, and promotion within the revitalization area, including the management and promotion of retail trade activities in the revitalization area; providing maintenance and security for common or public areas in the revitalization area; or historic preservation activities.

To use local revitalization financing, local governments must adopt an ordinance designating a revitalization area and specifying the proposed public improvements. No revitalization area may overlap with Hospital Benefit Zones, LIFT revenue development areas, CRF increment areas, or other local revitalization areas under this act. Local governments proposing a local revitalization area must provide notice to all taxing districts and local governments within the proposed area and hold public hearings. If taxing districts do not want to participate in the

allocation of their property or certain local sales and use tax allocation revenues, they must take action through the adoption of an ordinance/resolution to opt out.

The local government must enter into a contract with a private developer relating to the development of private improvements within the revitalization area or have received a letter of intent. Public improvements are expected to encourage private development and increase property value within the revitalization area. Private development must be consistent with the county's growth management plans. The governing body of the local government must also make a finding that revitalization financing will not be used to relocate an in-state business to the area and that the public improvements are likely to increase private investment and employment.

The Department of Revenue (DOR) will administer the application and approval process on a first-come basis for the state contribution. The state contribution is in the form of a local sales/use tax credited against the state tax. DOR must begin accepting applications September 1, 2009. The rate for the local sales/use tax is 6.5 percent, less existing local sales/use taxes that are credited against the state sales/use tax, anticipated rates of taxes previously approved through the LIFT program and the Hospital Benefit Zone program, and distributions of state sales/use tax revenues diverted to performance audits. The rate must also be no greater than what is reasonably necessary for the sponsoring local government to receive the full amount of state contribution over ten months. No new local sales/use tax credited against the state tax may be imposed before July 1, 2011.

The maximum state contribution for all revitalization areas is $2.5 million per fiscal year. The maximum state contribution per project is $500,000 per fiscal year. The state contribution awarded to a sponsoring local government is limited each year to the amount of local matching funds dedicated by the sponsoring local government in the preceding calendar year for revitalization financing. The state contribution must be used to pay for general obligation bonds issued to finance the public improvements in the revitalization area. Bonds issued for local revitalization financing do not constitute an obligation of the state.

Sponsoring local governments which have been approved for a state contribution must provide annual accountability reports to DOR. DOR will report summary information to the public and the Legislature annually.

Appropriation: None.

Fiscal Note: Requested on February 12, 2009.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony (Economic Development, Trade & Innovation): PRO: This tool allows locals to leverage growth; pay for their own infrastructure; and be less dependent on the state. Strategic investment in infrastructure needs reliable funding. This spurs business development and provides accountability.

It would be good to allow for opt-out by all locals. Perhaps as a penalty for violating the relocation provision there could be a payback of benefits.

OTHER: It is preferable to have 75 percent of the taxing districts included so no city can do this unilaterally without the county.

Persons Testifying (Economic Development, Trade & Innovation): PRO: Senator Kilmer, prime sponsor; Bill Baarsma, Mayor of Tacoma; Eric Holmes, City of Vancouver; Ashley Probart, Association of Washington Cities; Jim Hedrick, Greater Spokane Inc.; Greg Hanon, National Association of Industrial and Office Properties; Amber Carter, AWB.

OTHER: Scott Merriman, Washington Association of Counties.

Staff Summary of Public Testimony (Ways & Means): PRO: This is a tool that has proved to generate private investment. The primary beneficiary of these local investments in economic development has been the state, which has realized increased taxes from the improvements and activities in these areas. Other states, especially those surrounding Washington, which have tax increment financing, have a competitive advantage. These investments attract businesses to Washington. The locals have to earn and match the state contribution; the risk to the state is low.

Persons Testifying (Ways & Means): PRO: Mark Brown, cities of Vancouver, Lacey, Ridgefield, Longview, Battle Ground, CRECD; Matt Matayoshi, Mason County Economic Development Council; Ashley Probart, Association of Washington Cities.